

HOUSE BILL No. 1128

DIGEST OF INTRODUCED BILL

Citations Affected: IC 6-3-1-3.5.

Synopsis: Income tax deduction for medical care insurance. Provides an income tax deduction to an individual taxpayer for medical expenses paid by the individual and not compensated for by insurance or otherwise. Provides an income tax deduction for self-employed individuals for insurance premiums paid for medical care to the extent the premiums are not deductible under the federal Internal Revenue Code.

Effective: January 1, 2002 (retroactive).

Duncan

January 8, 2002, read first time and referred to Committee on Rules and Legislative Procedures.

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Introduced

Second Regular Session 112th General Assembly (2002)

PRINTING CODE. Amendments: Whenever an existing statute (or a section of the Indiana Constitution) is being amended, the text of the existing provision will appear in this style type, additions will appear in **this style type**, and deletions will appear in ~~this style type~~.

Additions: Whenever a new statutory provision is being enacted (or a new constitutional provision adopted), the text of the new provision will appear in **this style type**. Also, the word **NEW** will appear in that style type in the introductory clause of each SECTION that adds a new provision to the Indiana Code or the Indiana Constitution.

Conflict reconciliation: Text in a statute in *this style type* or ~~this style type~~ reconciles conflicts between statutes enacted by the 2001 General Assembly.

HOUSE BILL No. 1128

A BILL FOR AN ACT to amend the Indiana Code concerning taxation.

Be it enacted by the General Assembly of the State of Indiana:

1 SECTION 1. IC 6-3-1-3.5, AS AMENDED BY P.L.14-2000,
2 SECTION 16, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE
3 JANUARY 1, 2002 (RETROACTIVE)]: Sec. 3.5. When used in
4 ~~IC 6-3~~, **this article**, the term "adjusted gross income" shall mean the
5 following:

6 (a) In the case of all individuals, "adjusted gross income" (as
7 defined in Section 62 of the Internal Revenue Code), modified as
8 follows:

9 (1) Subtract income that is exempt from taxation under ~~IC 6-3~~
10 **this article** by the Constitution and statutes of the United States.

11 (2) Add an amount equal to any deduction or deductions allowed
12 or allowable pursuant to Section 62 of the Internal Revenue Code
13 for taxes based on or measured by income and levied at the state
14 level by any state of the United States.

15 (3) Subtract one thousand dollars (\$1,000), or in the case of a
16 joint return filed by a husband and wife, subtract for each spouse
17 one thousand dollars (\$1,000).

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- (4) Subtract one thousand dollars (\$1,000) for:
- (A) each of the exemptions provided by Section 151(c) of the Internal Revenue Code;
 - (B) each additional amount allowable under Section 63(f) of the Internal Revenue Code; and
 - (C) the spouse of the taxpayer if a separate return is made by the taxpayer and if the spouse, for the calendar year in which the taxable year of the taxpayer begins, has no gross income and is not the dependent of another taxpayer.
- (5) Subtract:
- (A) one thousand five hundred dollars (\$1,500) for each of the exemptions allowed under Section 151(c)(1)(B) of the Internal Revenue Code for taxable years beginning after December 31, 1996; and
 - (B) five hundred dollars (\$500) for each additional amount allowable under Section 63(f)(1) of the Internal Revenue Code if the adjusted gross income of the taxpayer, or the taxpayer and the taxpayer's spouse in the case of a joint return, is less than forty thousand dollars (\$40,000).
- This amount is in addition to the amount subtracted under subdivision (4).
- (6) Subtract an amount equal to the lesser of:
- (A) that part of the individual's adjusted gross income (as defined in Section 62 of the Internal Revenue Code) for that taxable year that is subject to a tax that is imposed by a political subdivision of another state and that is imposed on or measured by income; or
 - (B) two thousand dollars (\$2,000).
- (7) Add an amount equal to the total capital gain portion of a lump sum distribution (as defined in Section 402(e)(4)(D) of the Internal Revenue Code) if the lump sum distribution is received by the individual during the taxable year and if the capital gain portion of the distribution is taxed in the manner provided in Section 402 of the Internal Revenue Code.
- (8) Subtract any amounts included in federal adjusted gross income under Internal Revenue Code Section 111 as a recovery of items previously deducted as an itemized deduction from adjusted gross income.
- (9) Subtract any amounts included in federal adjusted gross income under the Internal Revenue Code which amounts were received by the individual as supplemental railroad retirement annuities under 45 U.S.C. 231 and which are not deductible under

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subdivision (1).

(10) Add an amount equal to the deduction allowed under Section 221 of the Internal Revenue Code for married couples filing joint returns if the taxable year began before January 1, 1987.

(11) Add an amount equal to the interest excluded from federal gross income by the individual for the taxable year under Section 128 of the Internal Revenue Code if the taxable year began before January 1, 1985.

(12) Subtract an amount equal to the amount of federal Social Security and Railroad Retirement benefits included in a taxpayer's federal gross income by Section 86 of the Internal Revenue Code.

(13) In the case of a nonresident taxpayer or a resident taxpayer residing in Indiana for a period of less than the taxpayer's entire taxable year, the total amount of the deductions allowed pursuant to subdivisions (3), (4), (5), and (6) shall be reduced to an amount which bears the same ratio to the total as the taxpayer's income taxable in Indiana bears to the taxpayer's total income.

(14) In the case of an individual who is a recipient of assistance under IC 12-10-6-1, IC 12-10-6-2, IC 12-15-2-2, or IC 12-15-7, subtract an amount equal to that portion of the individual's adjusted gross income with respect to which the individual is not allowed under federal law to retain an amount to pay state and local income taxes.

(15) In the case of an eligible individual, subtract the amount of a Holocaust victim's settlement payment included in the individual's federal adjusted gross income.

(16) For taxable years beginning after December 31, 1999, subtract an amount equal to the portion of any premiums paid during the taxable year by the taxpayer for a qualified long term care policy (as defined in IC 12-15-39.6-5) for the taxpayer or the taxpayer's spouse, or both.

(17) Subtract an amount equal to the lesser of:

(A) two thousand five hundred dollars (\$2,500); or

(B) the amount of property taxes that are paid during the taxable year in Indiana by the individual on the individual's principal place of residence.

(18) Subtract the entire amount:

(A) paid during the taxable year by the taxpayer for medical care:

(i) as defined in Section 213(d)(1)(A) and Section 213(d)(1)(D) of the Internal Revenue Code; and

(ii) not compensated for by insurance or otherwise;

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for the taxpayer, the taxpayer's spouse, and the taxpayer's dependents; and

(B) not claimed as a deduction under subdivision (16) or (19).

The limitations set forth in Section 213(b), (d)(3), and (d)(9) of the Internal Revenue Code apply for purposes of this subdivision.

(19) For an individual who qualifies for a deduction under Section 162(l) of the Internal Revenue Code, subtract the part of the amount paid for insurance that constitutes medical care for the individual and the individual's spouse and dependents and that is not allowed as a deduction under Section 162(l) of the Internal Revenue Code. However, the limitations set forth in Section 162(l) of the Internal Revenue Code apply for purposes of this subdivision, and the individual may not deduct amounts for which the individual claims a deduction under subdivision (16) or (18). For a qualifying individual who has only a share of the income earned by the individual from the trade or business for which the insurance plan is established that is attributable to Indiana, only the same pro rata share of the premiums paid may be deducted under this subdivision.

(b) In the case of corporations, the same as "taxable income" (as defined in Section 63 of the Internal Revenue Code) adjusted as follows:

(1) Subtract income that is exempt from taxation under ~~IC 6-3~~ **this article** by the Constitution and statutes of the United States.

(2) Add an amount equal to any deduction or deductions allowed or allowable pursuant to Section 170 of the Internal Revenue Code.

(3) Add an amount equal to any deduction or deductions allowed or allowable pursuant to Section 63 of the Internal Revenue Code for taxes based on or measured by income and levied at the state level by any state of the United States.

(4) Subtract an amount equal to the amount included in the corporation's taxable income under Section 78 of the Internal Revenue Code.

(c) In the case of trusts and estates, "taxable income" (as defined for trusts and estates in Section 641(b) of the Internal Revenue Code) reduced by income that is exempt from taxation under ~~IC 6-3~~ **this article** by the Constitution and statutes of the United States.

SECTION 2. [EFFECTIVE JANUARY 1, 2002 (RETROACTIVE)]



- 1 **IC 6-3-1-3.5(a)(18) and IC 6-3-1-3.5(a)(19), both as added by this**
2 **act, apply only to taxable years beginning after December 31, 2001.**
3 **SECTION 3. An emergency is declared for this act.**

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